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Today

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An automated system that reduces the time involved in resolving credit card chargeback disputes has been developed by Mastercard International Inc. and a high-technology firm owned by TRW Inc. The MasterCom system speeds processing by combining digital-image processing with laser printing at a personal-computer workstation. ——6

The first banking software to be integrated into the Wang image system is now being rewritten for IBM computers. BancA Corp., a year-old software company in Dallas, announced that several large banks are sponsoring its development of an IBM version of the Power 1 office automation system. ——7

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Worth Repeating

Your value to an organization is not your sameness, but your difference. That is what makes you unique as an individual.

C. James Maselko of the consulting firm Block, Petrella, Weisbord. [Page 2]

COMMENT

Bankers Dispute ABA

By SANFORD ROSE

The much-publicized American Bankers Association study of delivery system economics argues that "the U.S. banking industry faces a significant branch restructuring challenge that is not about to disappear, and most banks do not have the management tools needed to address the problem." Do bankers agree with the assessment of their trade association?

Based on a survey recently conducted by Oliver, Wyman & Company, one would have to conclude that they don't. The OW survey, which elicited responses from 36 large branch banking systems (the smallest bank had about $4 billion in assets, while the median bank had approximately $10 billion), reveals that bankers, by and large, do not feel their branches are in crisis.

An overwhelming majority of the respondents say that branch systems are critical to their strategic objectives — a sentiment with which neither the ABA nor Oliver, Wyman would disagree. However, the ABA study contends that fully 25% to 40% of all branches are

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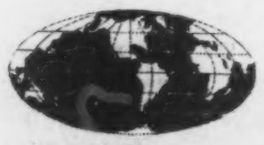
Japanese Test Global Market With Trust Bank Units in US

By JAMES R. KRAUS and ROBERT LUKE

NEW YORK — Japan's giant trust banks, once content to focus primarily on their national market, are now pushing aggressively into the global arena. Nowhere is this more evident than in the United States.



International Briefing

Recently, four of Japan's seven trust banks opened branches in New York — Yasuda Trust and Banking Co., Sumitomo Trust and Banking Co., Mitsubishi Trust and Banking Corp., and Mitsui Trust and Banking Co.

The trust banks are also expanding their geographic reach by opening representative offices. Yasuda, which has had a New York branch since 1977 and a Los Angeles agency since 1980, recently opened offices in Chicago and Atlanta.

"In the past, we've grown in an environment of distinctive national markets," said Fujio Takayama, president of Yasuda. "Now, we're dealing in a global market. Everyone recognizes this." He cited recent agreements to adopt common international capital-to-assets ratios as the best evidence.

International asset management, he said, is part of the growing diversification among Japanese trust banks, which in the postwar years served primarily to gather long-term deposits and channel them into capital investments.

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U.S. League's Journal Takes FDIC to Task

Article Favors Creation Of New Federal Agency

By JIM McTAGUE
Washington Bureau

WASHINGTON — An official of the U.S. League of Savings Institutions advocates the creation of a federal agency modeled on the Depression-era Reconstruction Finance Corp. to help overhaul the deposit insurance system.

In an upcoming article, Dennis Jacobe, research director for the 3,200-member thrift organization, argues that both the insolvent Federal Savings and Loan Insurance Corp. and the Federal Deposit Insurance Corp. need a radical overhaul. Mr. Jacobe says a merger of the funds won't work.

The financial strength of the FDIC, which has $18.3 billion in funds, is illusory, he claims. Mr. Jacobe said, however, that the league itself has not taken an official position on the strength of the FDIC.

Treasury Under Secretary George D. Gould said Tuesday that savings insti-

Outlays May Trigger Budget Cuts
Page 3

tutions are capable of contributing more money to restore the FSLIC.

Mr. Jacobe's article is scheduled to appear in this month's issue of *Savings Institutions*, the U.S. League's official magazine. The article does not specify where the new agency would obtain cash for troubled banks and thrifts.

A related piece in the May issue debunked claims about the FDIC's

U.S. League: Page 15 ➳

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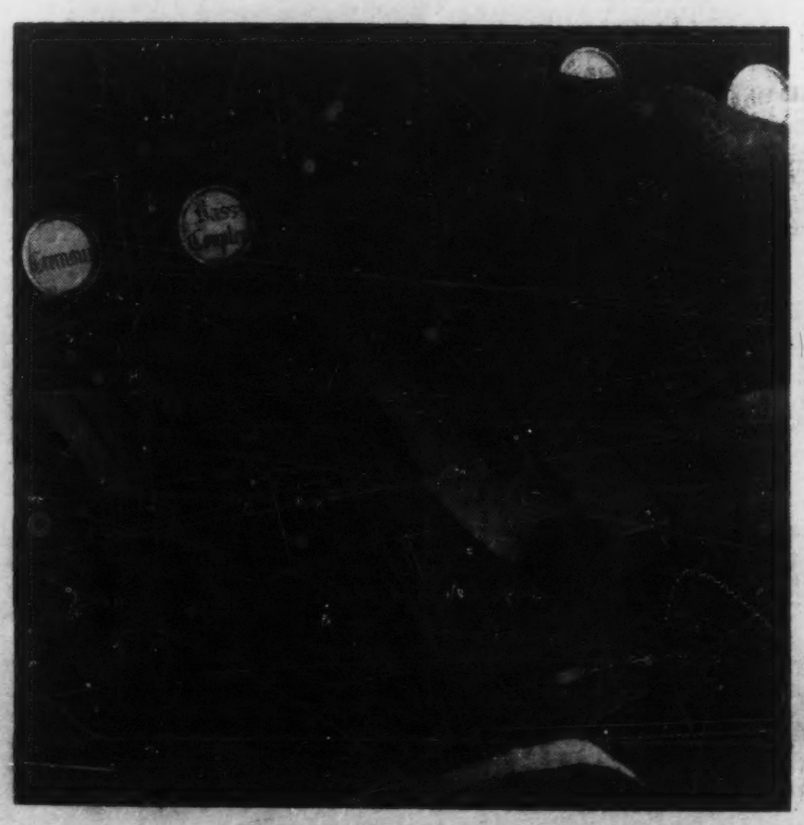

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EDS/MTech

Operations Show Not Just for Vendors

By JEFFREY KUTLER and SUZANNE CHRISTY

THE AMERICAN BANKERS Association held its annual technology extravaganza in Atlanta last week. Among 3,500 people in attendance, bankers were outnumbered almost 2-to-1 by representatives of 230 companies selling everything from mainframe computers to artificial intelligence systems — and from used automated tellers to filing cabinets for checks.

It was the largest such show ever in U.S. banking, reflecting the industry's voracious appetite for many kinds of systems. A visitor could have spent the entire three days touring the vast exhibit hall, listening to sales pitches, and trying to understand how the latest in products and services might be of help to their operations back home.

But the exhibition, which occupied several acres of the Georgia World Congress Center, was only half the story of NOAC '88, the ABA's national operations and automation conference. Despite the exhibit hall's record size and attention-grabbing glitz, "conference" was still the operative word.

Presentations by speakers, along with the informal conversations in the hallways, vied with the exhibit floor for the attention of those who sought more sober discussions of the issues and controversies facing bank operations executives at a time of volatility and uncertainty.

Cause to Celebrate

THE GROWTH of the national operations and automation conference over the past 20 years attests to the prominence achieved by operations — and operations managers — in the banking hierarchy. Self-congratulation is in order wherever operations people gather.

TECHNOLOGY TODAY
AN AMERICAN BANKER WEEKLY FEATURE

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"Operations and technology are now recognized to be part of the heartbeat and fiber of everything a bank does," said Lois Martin, chairman of the ABA operations and automation division, in an interview just prior to the conference. She is also senior vice president of FBS Information Services, St. Paul, a subsidiary of First Bank System Inc.

"Operations is not just seen as a back-room function anymore," added Jerry McElhatton, vice chairman of the ABA operations division and managing director of First RepublicBank Corp., Dallas.

Ms. Martin, Mr. McElhatton, and other members of the ABA operations executive committee said they have gained respectability and are now routinely included in the upper decision-making echelons at their institutions. They also seem untroubled by the cost-cutting mentality that appears to be so rampant in the industry.

"Cost containment is not necessarily a major issue for the technology side of a bank. Our institutions draft business plans, and our job is to support those plans.

"In some instances, such as check processing, our goal is to be the low-cost producer because there is no great competitive advantage to be gained. On the other hand, we see branch automation as an opportunity, where significant investment is clearly justified," Ms. Martin said.

"There is more emphasis on business-case analysis," said Robert Seidell. He is chairman of the NOAC '88

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Deregulation Urged By Japanese Banker

By CLAY NAFF

TOKYO — Kazuo Ibuki, the new president of the Federation of Bankers' Associations of Japan, said that the ministry of finance should push ahead with its plan to deregulate interest rates on small deposits by yearend.

However, he acknowledged that such action is unlikely. A federation spokesman later concurred, saying that negotiations among government agencies on this question have bogged down, and that deregulation may not take place until late next year or the following year.

Japanese commercial banks are worried about losing depositors to better-paying financial institutions following the April 1 abolition of tax-free accounts for small savers.

Mr. Ibuki, who is also president of Mitsubishi Bank, told a group of Japanese reporters that commercial banks should be permitted to offer market-rate certificates of deposit of 2 million to 3 million yen as an interim step.

Currently, interest rates on bank deposits up to 10 million yen are controlled at minimal rates ranging from 2.26% for deposits of a year or less to 3.64% for the maximum-allowed three-year fixed deposit.

Money market certificates at somewhat higher market rates are available for 10 million yen or more. Specialized banks can offer various low-cost deben-

Japanese Banker: Page 11 ➳

Texas Finance Board Stalls Insurance Powers Plan

By RICHARD RINGER

The board of the Texas Finance Commission delayed a scheduled vote on a controversial proposal to give insurance powers to state-chartered banks.

The six-person board, made up of four bankers and two nonbankers appointed by the governor, decided instead last Friday to continue studying the proposal.

The board is tentatively scheduled to meet again on June 17, said Robert Huxel, director of governmental affairs for the Independent Insurance Agents of Texas. The group, which leads the opposition to the proposal, represents 2,500 insurance agencies with 15,000 employees.

The agenda for the tentatively scheduled meeting has not been issued, Mr. Huxel said.

The proposal, made last April by Texas Bank Commissioner Kenneth W. Littlefield, would authorize insurance powers through regulation, not by legislation.

Hubert Bell Jr., acting general counsel for the Texas Banking Department, said Texas law does not require specific legislative approval for banks to engage in some insurance activities.

The Texas Legislature did not convene this year. Its next regularly scheduled session begins in January 1989.

The proposal would enable state-chartered banks in Texas towns with fewer than 5,000 residents to act as insurance agents for any type of insurance product.

Federally chartered banks already have this authority. Moreover, a wildcard statute in the Texas law gives the "same rights and privileges" of federally chartered banks to state-chartered institutions, said Mr. Bell.

The proposal also would allow any state bank to sell insurance covering the collateral for any loan that the bank makes. Existing law, Mr. Bell said, empowers the board of the Texas Finance Commission to determine activities that are "incidental" to banking.

The proposal, if adopted, would provide an additional source of revenue for state-chartered banks. Texas banks have suffered serious losses in recent years because of the downturn in the energy industry and the subsequent collapse of real estate prices.

This year, as many as 11 state legislatures were expected to consider proposals giving insurance powers to banks. The authority for state banks to engage in the insurance business was the item most desired by banks, among the powers the legislatures were expected to consider this year, according to an *American Banker* roundup of state legislative initiatives, published in February. ■

Third World Debt

Secondary market prices for bank loans to lesser-developed countries in cents per dollar of face value

	Bid 5/26	Bid 5/12	Asked 5/26	Asked 5/12
Algeria	92.00	91.00	93.00	93.00
Argentina	28.25	29.00	29.25	30.00
Bolivia	13.00	13.00	14.00	14.00
Brazil	54.50	55.25	55.25	56.25
Chile	61.25	61.25	62.50	62.25
Colombia	66.00	66.00	68.00	68.00
Costa Rica	11.00	13.00	14.00	16.00
Domin. Rep.	20.00	18.00	22.00	21.00
Ecuador	27.50	29.00	29.00	31.00
Honduras	22.00	22.00	25.00	25.00
Ivory Coast	28.50	29.00	31.50	32.00
Jamaica	35.00	35.00	38.00	38.00
Mexico	53.50	54.00	54.25	55.00
Morocco	50.00	50.00	51.00	51.00
Nicaragua	02.00	03.00	04.00	04.00
Nigeria	28.00	28.50	30.00	30.50
Panama	24.00	23.00	26.00	26.00
Peru	05.75	05.25	07.00	06.50
Philippines	53.50	54.25	55.00	55.75
Poland	43.00	43.25	43.75	44.00
Romania	84.00	85.00	87.00	88.00
Senegal	40.00	40.00	45.00	45.00
Sudan	02.00	02.00	10.00	10.00
Turkey	98.00	98.50	99.00	100.00
Uruguay	60.00	59.75	61.00	61.00
Venezuela	56.75	56.50	57.50	57.00
Yugoslavia	45.50	45.50	46.50	47.00
Zaire	19.00	19.00	23.00	23.00

Source: Salomon Brothers Inc.

FINANCIAL TECHNOLOGY UPDATE

The NCR 5571 Self-Service Information/Statement Terminal allows customers to obtain their own account statements and information without the assistance of branch personnel. Customers requesting interim statements and information concerning loans and money markets, for example, can now be offered another convenient automated service.

Advanced processing for branch automation. The Financial TOWER System 2 (FTS 2) from NCR is a state-of-the-art transaction processing system for branch automation. FTS 2 can provide a total solution in advanced hardware, software and communications in an open architecture designed to accommodate tomorrow's emerging technologies. The system also incorporates an advanced platform selling environment with sophisticated networking capabilities designed to provide customers with superior service.

Increased revenue and reduced labor costs are just two possible benefits of the Return Item System (RIS) from NCR. This system allows financial institutions to further automate manual procedures in return item processing. Now a single workstation can be put to more than one use, from MICR proof to return item applications.

First Independent Bank of Vancouver, Washington was one of the first and largest banks in the country to implement NCR's new Banker 80-II System. Their reasons were threefold: a) the cost was similar to that of their service bureau, b) they preferred in-house control over their own applications and operations, and c) their existing staff could be trained to operate the system, eliminating the need to hire highly-skilled personnel.

For additional information on these new developments from NCR, phone 1-800-CALL NCR.

NCR

Correction

The total deposits of Far West Federal Bank, Portland, Ore., fell 3.12% over the six-month period ended Dec. 31, 1987, from $1,473.5 million on June 30 to $1,427.5 million. Based on incorrect June data received for the thrift, Far West was erroneously given as the thrift with the largest deposit decline in a summary table to the listing of the top 300 thrifts, which appeared on page 18 in the May 27 *American Banker*. ■

➳ Continued from Page 1

currently unprofitable because of overbranching, mounting labor costs, a shift to higher-cost deposits, and the post-1981 decline in interest rates, which has reduced the earnings credit for branch-gathered funds.

The respondents to the OW survey are decidedly less negative. They maintain that only 8% (mean percentage) to 9% (median percentage) of their branches were unprofitable in 1987.

Few Are Intractable

What's more, they argue that virtually all their currently unprofitable outlets can be restored to profitability by management action within one to two years. On average, only 2% to 4% of branches are considered intractably unprofitable and therefore candidates for closure.

In point of fact, the respondent banks are not in a branch-closing mood. Although some branches will undoubtedly be shuttered, on net, the surveyed institutions expect to have more branches in operation in the next couple of years than they now have — an average of about 6% more.

Why the discrepancy between the ABA numbers and those derived from this survey of large banks? Are the respondents guilty of a certain measure of unrealism? Quite possibly this might be the case.

Oliver, Wyman notes that the evaluation of branch performance at the surveyed banks tends not to be especially rigorous and therefore probably misrepresents the relative contribution of some branches versus others.

Only about half of the respondents measure the performance of branches individually. And of those that look at individual performance, more than three quarters evaluate that performance in relation to what are described as goals and targets (probably growth targets) rather than according to harder, more objective profit criteria — e.g., return on assets, deposits, or imputed equity.

Significantly, those banks that employ the more objective profit criteria report that the number of their unprofitable branches is some 50% greater than at banks that don't have hard branch profitability data.

Telltale Omissions

Asked to list the most common reasons for branch unprofitability, the respondents cite poor location and neighborhood demographics as the primary cause and excess overhead allocations as the second reason. Relatively few mention bad management, still fewer cite in-branch inefficiency, and rather shockingly, none mentions poor product pricing as a contributor to unprofitable operations.

Oliver, Wyman considers these responses to be a tad bizarre. In the view of Bill Wyman, its managing partner, location is undoubtedly the primary driver of branch profitability since it determines deposit volume per branch, which has a huge influence on unit costs. Good location also is an important determinant of superior mix — the ability to offer the more profitable products to the more profitable sets of customers.

But while the right location provides the potential for profitable operations, whether that potential is actually realized depends rather heavily on appropriate product marketing and origination, product pricing, and branch efficiency — variables that are either slighted or totally ignored by the respondents.

For example, OW has found that the level of efficiency differences (on a range of specific measures such as expense per transaction) among branches in the same system is routinely over two to one. That is, something that costs $1 per unit in branch A can cost more than $2 per unit in branch B for no discernible reason except that it hasn't been monitored and managed.

By identifying the best-performing branches in a given system and upgrading the poorer performers to the standards of the well-run outlets, the consulting firm has been able to realize significant economies — saving, for some client banks, as much as 20% to 25% of direct branch costs.

Similarly, although none of the respondents identified product pricing as a cause of branch unprofitability, OW believes that considerable gains can be achieved via a more rational approach to pricing. In one instance, the consultant had a client reprice its losing demand deposit accounts — account sizes in the range of between $1,000 and $2,000 — by simply raising the cutoff for the waiver of fees to the level where the earnings credit paid for the account. As a result, the bank was able to increase branch net income by as much as 22%.

Misplaced Emphasis

While downplaying some very important reasons for unsatisfactory branch performance, the respondents emphasize one factor whose significance is rather dubious. As noted, the second most quoted reason for lack of profitability is excessive corporate allocations. But OW ventures the opinion that corporate overhead allocations are the *least* important factor in retail profitability. Typically only 10% or less of retail noninterest expense, indirect overhead, in OW's view, is only minimally displaceable and marginally controllable.

The nature of the responses to this survey suggests one large generalization: Executive management doesn't yet have reliable information on branch systems, and the lack of adequate profitability data, says Stuart Williams, an OW partner, continues to obscure major opportunities to rationalize and improve retail banking.

Fortunately, the great majority of major banks are currently building management information systems. As these systems come on stream, bankers will be better able to identify which branches are unprofitable and why.

Salvageable Losers

Oliver, Wyman agrees with the ABA estimate that branches with deposit levels of less than around $20 million to $25 million tend to lose money, if profitability is appropriately measured. However, it argues that this need not be so.

If branches are designed for specific markets and are operated more efficiently than they are now operated, the minimum size for breakeven, even in today's interest rate environment, is estimated to be only between $10 million and $15 million. Therefore, concludes the New York consultant, the proportion of all branches that will eventually have to be closed is surprisingly low, almost certainly less than 10%.

It may be that the respondents to the OW study, while overoptimistic about the current health of many of their branch outlets, are not too far off the mark in their estimate of the number of required branch closings.

Many of today's money losers are probably salvageable — an opinion shared, incidentally, by the author of the ABA study, Booz-Allen & Hamilton, which argues that branch closings are, in any case, a last and most unsatisfactory expedient. However, lacking the necessary data, the respondent banks at present seem to greatly underestimate the magnitude of their task.■

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LETTERS TO THE EDITOR

Direct Deposit Plan May Hinder Benefit Recipients

To the Editor:

I would like to comment on the *American Banker's* May 20 article titled "Social Security, Treasury Simplify Direct Deposits" [page 15].

While the Social Security Administration's Presumed Direct Deposit program will probably provide the anticipated "sizable boost to direct deposits," I believe that it will be at the expense of many benefit recipients — specifically, those beneficiaries whose payment record contains an error in either their account number or type of account.

The Social Security Administration has never supplied receiving banks with "prenotes" which are required of all private-sector direct deposit originators.

The receiving bank is required to verify the integrity of the information contained in the prenotification (account number and account type) and to notify the originator in case of an error.

This procedure enhances the acceptability and salability of direct deposit by reducing the number of potential errors. Social Security has instead required a benefit recipient to sign an authorization form that then had to be countersigned by the receiving bank.

The receiving bank had the chance to verify and correct the deposit account number and account type.

An error rate of 10% to 20% in completing this form by customers is not unusual! The use of this form is now being eliminated along with the chance for verification at the receiving bank.

The receiving bank will now receive a payment on the 3d of the month with no advance notice, no advance verification or opportunity for correction, and complete liability if the post is to the wrong account in good faith effort to identify and accommodate a customer.

The net result is going to be an increased number of rejects and returns to the Social Security Administration. While I applaud and wholeheartedly support the effort to increase the number of direct deposits, I am discouraged that the Presumed Direct Deposit program does not provide the receiving banks with any opportunity for verification. While 80% to 90% of the participants in the program will have saved "a separate trip to their financial institutions to get special forms," the remainder may see their direct deposit being returned to the Social Security Administration as an unposted item.

James J. Mackell
Vice President
Deposit Services
Maine Savings Bank
Portland

Something to Say?

Please direct any comments you may have to the editor, William Zimmerman, American Banker, One State Street Plaza, New York 10004. Letters may be edited for reasons of space and clarity.